PROGRESS OF CO-OPERATIVE BANKS IN INDIA

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ABSTRACT
Agriculture is the mainstay of the Indian economy because of its high share in employment. There are so many problems in agriculture but agriculture credit is a major problem in rural area. In many developing countries, it has been found that the rural credit market is imperfect in nature. There are substantial variations in the availability of formal credit in rural urban locations. Since the credit is the ‘Princ of Denmark’ in the whole apparatus of the cooperative movement, it merits the pride of place in the present study of cooperation. The cooperative banking structure is pyramidal or federal in character. At the base, i.e., at the village level there are primary credit societies upon which the whole edifice of co-operative credit is based. These societies are federated at the district level into a Central Society called the Central Co-operative Bank. At the State level, the district banks are federated into an apex bank. The apex or state cooperative bank in its turn is closely linked with the NABARD which provides considerable financial assistance to cooperative credit structure. This is the set up in regard to short-term financing. The present study is limited only to cooperative credit aspect of agriculture.

INTRODUCTION
Cooperatives play an important role in the socio-economic development of rural masses. A small beginning was made with the enactment of first Co-operative Credit societies Act in 1904. Since the credit sector is the ‘Princ of Denmark’ in the whole apparatus of the cooperative movement, it merits the pride of place in the present study of cooperation. The cooperative banking structure is pyramidal or federal in character. At the base, i.e., at the village level there are primary credit societies upon which the whole edifice of co-operative credit is based. These societies are federated at the district level into a Central Society called the Central Co-operative Bank. At the State level, the district banks are federated into an apex bank. The apex or state cooperative bank in its turn is closely linked with the NABARD which provides considerable financial assistance to cooperative credit structure. This is the set up in regard to short-term financing. The present study is limited only to cooperative credit aspect of agriculture.

OBJECTIVES
(i) to study the Co-operative Movement and credit structure in India; and
(ii) to evaluate the Progress of Co-operative Banks in India.

COORDINATIVE MOVEMENT IN INDIA
The Indian cooperative movement, like its counterparts in other countries of the world has been essentially a child of distress. Based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901), the Cooperative Credit Societies Act was passed in 1904, paving the way for the establishment of cooperative credit societies in rural and urban areas on the patterns of Raiffeisen and Schulze Delitzch respectively. The Cooperative Societies Act of 1912 recognized the formation of non-credit societies and the central cooperative organizations/federations. The State patronage to the cooperative movement continued even after 1947, the year in which India attained freedom. The independent India accepted the concept of planned economy and cooperative organizations were assigned an important role.

Since 1950s, the cooperatives in India have made remarkable progress in the various segments of Indian economy. During the last century, the cooperative movement has entered several sectors like credit, banking, production, processing, distribution/marketing, housing, warehousing, irrigation, transport, textiles and every industry. In fact, dairy and sugar cooperatives have made India a major nation in the world with regard to milk and sugar production. Today, India can claim to have the largest network of cooperatives in the world numbering more than half a million, with a membership of more than 200 million. Of the primary (village) level cooperatives, around 28 percent with 137 million memberships are agricultural cooperatives, dealing directly or indirectly with agricultural sector. The cooperative network in the country is rather strong covering all the villages in the country and more than 67 percent of the households have been brought under the cooperative hold. Cooperatives supply about 46 percent of the total rural credit (including agricultural credit), account for 36 percent of the total distribution of fertilizers, produce about 55 percent of the total sugar and constitute for 28 percent of the rural fair shops (distributing consumer articles). Though cooperative movement has made remarkable progress in several areas, certain glaring defects have also developed in the movement, which have been, in a way, defeating the very objectives of these institutions. The following are the unique features of Indian cooperative movement.

COORDINATIVE BANKING IN INDIA
Historically, Governments and policy makers have paid more attention to agricultural cooperatives and thus, the growth and development of the Indian cooperative movement is heavily tilted in favour agricultural cooperatives in general and in particular, credit cooperatives. In some areas like dairy, urban banking and sugar, the cooperatives have achieved success to an extent but there are larger areas where they have not been so successful. The cooperative credit movement in modern India, curiously, is a state initiated movement. The state partnership is, perhaps, the unique feature of the Indian cooperative movement. As of today, Government contribution to the share capital of primary agricultural cooperatives accounts for about 7.5 percent of the total.

Paradoxically, the state partnership which was conceived as a measure for strengthening the cooperative institutions had paved the way for ever-increasing state control over cooperatives, their increasing officialization and politicization culminating in virtually depriving the cooperatives of their vitality as well as their democratic and autonomous character. Dormant membership, lack of active participation of the members in the management, lack of professionalism (and absence of corporate governance), undue political and bureaucratic intervention, have made majority of the
cooperatives at the primary level almost moribund. Unders
standingly, this has resulted in weakening of the cooperative edifice.
The upwardly transmission of the weaknesses of the primary
societies have affected the capabilities of the higher level
cooperative federations in so far as their usefulness to the former
is concerned.

With regard to agricultural cooperative credit structure, although
the quantitative expansion has been somewhat satisfactory, the
movement continues to suffer from structural defects and
operational deficiencies. The acknowledged operational
deficiencies of the cooperative credit structure have been (i) weak
recycling of credit, (ii) poor resource mobilization, (iii) ineffective
lending and (iv) poor recovery.

The rural credit cooperatives may be further divided into short-term
credit cooperatives and long-term credit cooperatives. With regard
to short term credit cooperatives, at the grass-root level there are
around 92,000 Primary Agricultural Credit Societies (PACS) dealing
directly with the individual borrowers. At the central level (district
level) District Central Cooperative Banks (DCCB) function as a link
between primary societies and State Cooperative Apex Banks (SCB).
It may be mentioned that DCCB and SCB are the federal
cooperatives and thus the objective is to serve the member
cooperatives. As against three-tier structure of short-term credit
cooperatives, the long-term cooperative credit structure has two
tiers in many states with Primary Cooperative Agriculture and Rural
Development Banks (PCARDB) at the primary level and State
Cooperative Agriculture and Rural Development Bank at the state
level. However, some states in the country have unitary structure
with state level cooperative operating with through their own
branches and in one state an integrated structure prevails. The
organizational structure of the credit cooperatives in India is
illustrated in chart I. Interestingly, under the Banking Regulation Act
1949; only State Cooperative Apex Banks, District Central
Cooperative Banks and select Urban Credit Cooperatives are
qualified to be called as banks in the cooperative sector. In other
words, only these banks are licensed to conduct full-fledged
banking business.

PROGRESS OF CO-OPERATIVE BANKS IN INDIA
The Progress of Co-operative Banks in India for the period 2011-
2012 to 2015-2016 has been presented in Table-1

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<td>Deposits</td>
<td>52,973</td>
<td>68,659</td>
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<td>82,783</td>
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<td>Loan Advances</td>
<td>57,453</td>
<td>93,883</td>
<td>1,03,588</td>
<td>1,20,065</td>
<td>1,28,400</td>
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<td>Outstanding Loans</td>
<td>48,221</td>
<td>48,079</td>
<td>49,629</td>
<td>52,680</td>
<td>59,756</td>
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<td>Deposits</td>
<td>1,02,986</td>
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<td>Loan Advances</td>
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<td>Outstanding Loans</td>
<td>91,374</td>
<td>99,529</td>
<td>1,07,266</td>
<td>1,37,300</td>
<td>1,67,529</td>
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<tr>
<td>Deposits</td>
<td>625</td>
<td>711</td>
<td>759</td>
<td>836</td>
<td>911</td>
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<td>Loan Advances</td>
<td>2,226</td>
<td>2,585</td>
<td>3,205</td>
<td>4,178</td>
<td>4,394</td>
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<td>Outstanding Loans</td>
<td>10,021</td>
<td>16,621</td>
<td>17,666</td>
<td>19,086</td>
<td>21,579</td>
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Source: RBI, Report on Trend and Progress of Banking in India
(various issues)

There is no change in the number of State and Central Cooperative
Banks. The deposits, loans advanced and outstanding loans
observed slight progress in their banks. In the case of Primary
Agriculture credit societies the number has been decreased from
94942 in 2011-12 to 68432 in 2015-16 due to reorganization and
reforms in Co-operative movement in India. The deposits of PACs
observed slight progress. But the loans advanced and outstanding
loans increased by 81 per cent 66 per cent during the study period.

ACTION PLAN FOR REFORMS
Over the years, the growing concerns for impairment of credit
cooperatives in rural India led to the setting up of the Task Force on
Revival of Cooperative Credit Institutions, appointed by the
Government of India in 2004. The committee recommended an
action plan for reviving and revitalizing the rural credit cooperative
institutions through legal measures necessary for facilitating this
process. The task force submitted its report in February 2005, and
after extensive discussions the revival package was implemented
across the country in January 2006. The NABARD was made the
implementing agency for the purpose. The revival package was a
combination of legal and institutional reforms, capital infusion and
technical support for capacity building. The implementation of the
action Plan [ADB 2010] of the revival package was perceived to
result in the emergence of a strong, self-reliant and well-knit
network of rural cooperative credit system. The implementation of
the revival package involved in planning and execution of a series of
action plans for:

a) Facilitating Legal, Regulatory, and Governance Framework
The state enacted Cooperative Societies Acts (CSAs) were amended
for: providing full voting membership rights to all financial service
users including depositors in cooperatives; removal of state
interventions in all financial and internal administrative matters;
capping the equity of participating states at 25 % and restricting
participation of state in the boards of cooperative banks to one
nominee; giving cooperatives the freedom to access loans from any
regulated financial institution and not necessarily from its upper
tier and similarly permitting to place their deposits with any regulated
financial institution of their choice. State power was also limited
from superseding boards, while due emphasis was given to
ensuring timely elections. Cooperative banks were brought under
the regulative ambit of the Reserve Bank of India (RBI) and were
subjected to prudential norms, including CRAR. Besides, NABARD
Act, 1982 and the Banking Regulation Act, 1949 were amended.
With these amendments co-operatives were brought under the
ambit of banking prudential norms of income recognition, capital
adequacy, asset classification and provisioning.

b) Institutional Reforms for Sustainability
Institutional reforms involved implementation of action plans, such
as: (i) account standards (ii) management information systems
including internal control and audit systems (iii) computerization
plan (iv) Human development plan for RCC. PACs were also required
to undergo special audits (to assess the extent of accumulated
losses as of 31st March 2004), based on uniform accounting criteria
and implement plans to phase out cadre-based secretaries in PACCs
for greater accountability in functioning of PACCs. Institutional
reforms also sought for development and implementation of plans
in participating states having ineligible PACS.
c) Financial Package

Financial package was a one-time conditional measure released only on the implementation of the recommendations for legal and institutional reforms with the objective of bringing PACS to an acceptable level of financial health through cleansing of their balance sheets and strengthening their capital base. The financial package was subject to specific conditions. The quantum of financial assistance for covering the accumulated losses of PACS as of 31st March 2004 was determined on the basis of the uniform accounting standard. The special audit ensured that in the event of insufficient provisioning made by the RCC, they do not get undercapitalized. The package assistance initially allowed PACS to reach a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 7 per cent and within a span of three years increased to 9 % to meet the minimum industry standards.

d) Eligibility Norms

All PACS with a recovery level of at least 30% of the demand as on 30th June 2004 were qualified for being covered under the revival package. State governments were obliged to determine the future set up of PACS having recovery levels of less than 30%. State governments were required to take appropriate steps to ensure the flow of agricultural credit to farmers in the operational areas of such non-qualifying PACS. PACS with recovery levels between 30% to 50% received financial assistance in three annual back-ended instalments (at the beginning of each succeeding year), subject to their achieving an incremental increase in their recovery rate of at least 10 percentage points on 30th June 2006 against the benchmark recovery achieved on 30th June 2004, and with an annual increase of 10 percentage points thereafter. Full capitalization was provided to PACS with recovery levels of 50% and above. As and when a PACS would achieve 50% recovery, the entire financial assistance would be released without waiting for the year to year recovery benchmarks.

SUGGESTIONS

i. The Cooperative Banks should try to increase their deposits by opening branches in business areas, improve the services to their clients, introduce different types of deposit schemes and offer competitive rates of interest.

ii. Cooperative Banks should change their loan policies on the basis of crop loan systems.

iii. The Cooperative Banks must maintain adequate liquid resources, margin, Properly scrutiny of loans and should try to qualitative improvement to the staff.

iv. Cooperative Banks should try to co-ordinate between the Board of Management, Members, Depositors and Employees of bank.

v. Accountability and transparency need to be brought in the implantation of the Schemes.

CONCLUSION

Cooperative banks belong to the oldest forms of the collective action in India playing essential role in the realization of the agricultural and in local development. They serve both rural and urban population, and are main banks in India supporting development of agriculture and rural areas. Their key role is to give credits financing various rural based entrepreneurship. Agricultural credits play a number of significant functions of which the primary include the intensification and growth of the agricultural production. In a developing State like Chhattisgarh with huge deficits in terms of quality and quantity, the State has to shoulder the primary responsibility of providing cooperative credit. Considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the government to ensure that its citizens have easy access to cooperative credit, particularly at gross root level.

REFERENCES